The recent (since 18 April 1955) Hegedüs government succeeding Nagy could not reverse the trend entirely. Although he is extremely severe in the enforcement of the decrees concerning crop collection and taxes in the villages, Hegedüs, unlike the pre-Nagy Communist governments, continues not to discriminate against the small- and medium- landholders. 642 656

The majority of the heavy agricultural work is performed with teams of horses or cows, rarely oxen. The equipment used is up-to-date, although wooden implements were used as late as the end of the nineteenth century. A full mechanization of agriculture would call for more emphasis on this type of machinery than the present status of Hungarian industry permits. Nevertheless, there has been an impressive increase in agricultural machinery, although complaints about the poor quality of domestic machines are common. 241 407

The number of agricultural machine stations and tractors in Hungary was: 475 241

	MTS	tractors
1950	361	6,681
1952	364	9,723
1954	364	11,298

The equipment of the average MTS is 36 tractors, 23 threshing machines, 6 harvesters, 4 traction engines, 2 combines and several smaller machines for specific purposes.

475
241

These machine stations are, of course, State property and their services can be rented at rates established by the government. Kolkhozes and peasants enjoy more favorable rates than wealthy peasants. There is some resistance to mechanization on the part of the more conservative

[242] peasants. This resistance is, however, much less than that exhibited against entirely new farming methods such as the square-nester method of seeding corn or the lengthwise and crosswise hoeing.

651
241

As a rule, peasants have to deliver first their compulsory delivery quotas at a low price set by the State. If some produce is left, which may or may not be the case, they can market the rest freely. If and when delivery quotas are not fulfilled, the free marketing of certain products may be forbidden for a time. In 1954 such restrictions were made on meat

[253] and lard. Especially Draconic are the government's measures against "unlawful" slaughtering of domestic animals, for the situation is acute in this branch of agriculture. Government decree No. 250,890 of February 23, 1951 promises five per cent of all the goods confiscated to anyone, official or private citizen, who helps the authorities to discover "black (illegal) slaughtering."

471
241

The Hungarian peasants either operate their farms individually, which is true in the majority of cases, or they work for a state farm (sovkhoz),

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

652 453 by the private banks). When the private banks disappeared, the differential rates were directly charged by the National Bank.

The following special interest rates were in force for agriculture:

	per cent
(1) For co-operatives running collective farms	5
(2) For other co-operatives and for members of co-operatives in category (1)	9
(3) For members of co-operatives in category (2)	11
(4) For other debtors	18

The scale of interest rates can hardly be said to have been inspired by purely economic considerations. It was rather on political grounds that private enterprise had to bear considerably higher rates than that which had been nationalized. In agriculture the Government were intent on favouring collective farming by discriminative credit practices. 'Working' peasants were allowed to obtain credit on conditions similar to those prevailing before the war. For others (excluded from the co-operatives) a prohibitive rate of 18 per cent was fixed, though it was hardly more than nominal since those owning holdings over [661] 25 yokes were denied credit facilities. One decisive consideration was, apparently, to exploit even rates of interest as a weapon of class warfare.

652 454 In a capitalist system based on free competition, the investment market determines the allocation of resources among the various openings for capital enterprise, and the long-term rate of interest is its principal instrument for the purpose. The Hungarian Plan rejected that mechanism, and the question remains by what considerations the Government or the Planning Department was guided in deciding upon the allocation of capital resources among industries. At the inception of the Plan there was hardly any alternative to deciding arbitrarily upon the direction of investment into the various channels in conformity with preconceived ideas about the relative importance of capital-goods industries and of some outstanding consumer-goods industries. But as, in the course of economic progress, the application of the Plan became more and more intricate, this first rough approach had to be superseded by more discriminating methods. Under conditions when production provides only for bare necessities a programme based on nothing better than guesswork will contribute to meeting consumers' needs. As soon as the economy progresses beyond this low standard, divergencies between the anticipations of the planners' and consumers' wants are likely to arise.

652 475 The exemption of publicly-owned enterprises from being charged with interest on their investment would not itself pre-

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

clude an internal calculation of interest for the use of the planning authorities for the purpose of cost accounting. The inclusion of a hypothetical charge for interest would make more realistic the obligation imposed on the enterprises to earn profits for the Treasury. Net surpluses so calculated, after taking due account of costs, including the cost of capital engaged in the enterprises, might serve as a criterion for the guidance of the planners in comparing the desirability of investment. Yet the 'profits' delivered to the Treasury are not the outcome of an appropriate system of accounting. They are derived from the excess of receipts from sales over total expenditure. Replacements are provided for from a centrally-managed depreciation fund into which the concerns are bound to pay contributions separately fixed for each branch of industry. Characteristically enough these contributions are also based on the sales of the enterprises.[1]

The absence of a calculation of capital costs from the account makes the prices of the products of heavy industry relatively low. The resulting distortion of the price structure might have been corrected by varying the percentage to be added to the costs (consisting of expenses for materials, wages, replacement, and maintenance), on account of the margin of profit to be delivered to the Treasury. But that was not done; the margin was equal for the whole range of industry.

Perhaps the underlying idea was that the paramount purpose of fostering the expansion of heavy industry would be furthered by fixing low prices for its products. But it would seem that the low prices were of little practical effect in stimulating demand. Where, as in most instances, the products were bought by one publicly-owned enterprise from another, the price was merely a matter of book-keeping, and losses on the one side balanced gains on the other.

On the other hand, in the case of exports, any underpricing inflicts a definite loss on the economy. This point is not unimportant in view of the considerable deliveries of the products concerned to the Soviet Union.

The objection might be raised that a more realistic method of cost accounting would be of little relevance for directing investment when the greatest part of it (i.e. that in heavy industry) was determined regardless of economic considerations. Yet, whatever the objectives adopted on political grounds might be, it was possible to approach them in ways either more or less in accord with economic principles. The Planning Department certainly drew up calculations to enable a rough comparison to

[1] See below, p. 86.

3:Kemeny G-5 (1945-48)1953 EC1 Hungary EC1

be made between capital expenditure and anticipated economies, taking account of the time factor when schemes of national importance were in question. To be more specific, when they had to choose between different big power development schemes, they attempted to compare the periods within which the economies to be achieved by the several schemes would equal the capital outlay to be incurred. However, this method fails to work in hundreds of ordinary cases, whether in heavy or in light industry. Without the link between the consumers' demand and capital allocation, established by the use of a rate of interest in the cost calculation, it was not possible to determine accurately whether at a given moment the allocation of means to a textile-mill or a shoe-factory was more urgent. The planners did not regard refinements of this kind as matters of consequence. They believed that their targets for the production of consumer goods accorded largely with the needs of the ordinary man, and they did not appeal to the test of cost and price to determine whether at a given moment more textiles or more leather goods would have been indicated by the consumers' preferences.

In an economy lacking proper methods for the calculation of capital costs a danger of capital consumption arises, especially when the executives are pressed hard to remit the greatest possible surpluses to the Treasury whether genuinely realized or not. This danger was the more acute as allowances for replacement might be fixed much too low by the Planning Department. Undue cutting down of maintenance cost was another possible device for producing unreal profits. Even the men in control could only gradually discover whether this was actually taking place. On the model of Russian practice, the disregard of capital equipment as a cost factor appears to have been a point of principle. Whatever the real reason was, it is a fact that in the course of the Three-year Plan the system of accounting applied by the nationalized enterprises did not offer a reliable basis for deciding between alternative projects of investment. The practical relevance of this deficiency should not be overestimated. Calculations anticipating future developments are usually influenced by too many factors to leave a single item a decisive role. Moreover, in a planned economy the need for keeping down capital costs might often be deliberately overruled by other considerations. Even so the disclosure by current methods of accounting of what is being done would be useful. The Hungarian authorities deprived themselves of a convenient pointer, even though subsidiary in importance, for indicating whether capital supply in certain industrial sectors should be extended or curbed.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

dard norm. Soviet Stachanovite practices were transplanted to Hungarian industry. Press and party assemblies and, in fact, the whole country resounded with the propaganda in favour of workers' competition. The drive was extended from the factories to agriculture, to distributive businesses, and to offices. Besides individual contests thousands of workers' brigades were formed and soon shock-workers and shock-plants emerged, all of them serving the single purpose of giving support to a revision of the basic norms.

Besides these technical devices for raising efficiency there were also psychological methods. The special attention very generally given to innovations initiated by workers was only one part of the effort to capture the workman's interest in the results of his own work, as well as in the whole process of production. Serious attempts were made to improve the workers' understanding of the connexion between their achievements and those of the whole factory. It was under this aspect that the discussions of production and investment plans with the workers were insisted upon. Minutes on these discussions had to be submitted by the individual concerns to the Planning Department, together with their production and investment plans.

Incentives were provided for good management, and for the co-operation of work-people and higher grades in promoting efficiency. In such cases the authorities insisted on distributing the reward among the managers, technicians, and workers directly concerned, instead of spreading the premium over the whole plant. Further, steps were taken to encourage increases in profits. Public enterprises, which succeeded in delivering surplus to the Treasury up to the required level, were allowed to use 5 per cent of it for the benefit of their employees. If excess profits were achieved through economies, up to 20 per cent of the excess was put at the disposal of the enterprise. Instructions had been given that 40 per cent of these bonuses should be distributed in the form of individual rewards, while 60 per cent were reserved for the social institutions of the concerns.

In considering industrial efficiency, the implications of the radical reorganization of industry as a consequence of the transfer to public ownership should be taken into account. As already mentioned (p. 87) steps were taken towards a better division of labour in engineering and other industries. At an early stage specialization was furthered by concentrating the production of tractors, lorries, machine tools, and agricultural implements in separate units. The National Bank claimed in its Bulletin[1] that the public enterprises had made progress in the

[1] February 1949.

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

475 field of specialization, and that, through the transfer of machinery that was not being used, bottlenecks could be eliminated in several factories.

However, the incorporation without adequate preparation of more than 600 enterprises in the publicly-owned section could not fail to have detrimental repercussions on conditions within the factories. The upheaval naturally entailed changes in the management. Leading industrialists, regarded as representatives of capitalistic interests, were eliminated first, and next a number of other managers and responsible technicians who were accused of unsocial behaviour. Former owners, even of small factories, who were personally connected with their business had to be turned out on grounds of principle. If their political reliability was not questioned, they might possibly be employed in other concerns or by the industrial directorates. These engagements usually did not last long, and most of the persons concerned left the country as soon as possible. All this occurred at a time when, in consequence of the establishment of twenty-nine industrial directorates and of an even greater number of operative centres for the different industrial branches, the need for industrial experts suddenly increased. The decision was then taken to promote workers to the executives, and in a series of industrial enterprises, including some of the most important, workers got [433] leading positions. It should be stressed that amidst all these changes no adverse effects on the quantity of production were noticeable. In spite of deficiencies in management and factory organization, output moved upwards parallel with an increasing labour force, improved equipment, and enlarged capacities.

After a certain time rifts, not directly connected with the initial troubles, became perceptible. At the outset the managers of public enterprises had been endowed with the authority of decision proper to the position of responsible men. The importance of personal responsibility was repeatedly stressed in official declarations. Yet the influence of the bureaucratic industrial directorates prevailed. And a decree put in force early in 1949 introduced a system of dual control within the enterprises. According to this order the chief accountant of the public enterprise became responsible jointly with the director-general for the conduct of the business. The chief accountant was bound to hold up the execution of any instruction which in his opinion was not in accordance with the rules in force, unless he received a written order from the director-general. Whenever such a case occurred it was to be reported to the competent Minister and the Central Office of Control. The engagement, transfer, or

3:Kemeny G-5 (1945-48)1952 EC1 Hungary EC1

discharge of a chief accountant was permissible only with the the consent of the competent Minister.

This method of dual control, which under normal conditions is a useful expedient for financial supervision, proves less efficient in an atmosphere full of suspicion, under the continuing threat of purges. The measure aggravated the prevalent tendency to shirk responsibility, which became a serious impediment in the management of enterprises. Delayed decisions obstructed adjustments. The bureaucratic methods of conducting business hampered exports.

Consequent on the efforts to reach the production quotas, or possibly to exceed them, emphasis was placed on quantitative results. The enforced acceleration of the pace of work in the labour contests was not conducive to maintaining the quality of products. The policy of encouraging lower-grade technical improvements within the workshop threw the importance of more substantial inventions, such as might effect improvements of quality, into the shade. The authorities did make efforts to encourage industrial research. But the attention of industrial executives, in particular of the new managers recruited from the workers' class, was centred on the workers' innovations. Remedial measures were tardily taken. It was only in November 1949 that a decree was issued on the establishment of committees for supervision of quality in the factories. At the same time the decree provided for training courses for the supervision of quality in the various sectors of light industry.

In summing up the results of these exertions,[1] we are faced with a question which has been the subject of much controversy with labour, the productivity per head in industry. Taking the volume of output per man-hour as a basis, the Planning Department stated that, compared with 1946–7, productivity in manufacturing industry had risen 25 per cent during the first Plan year. The Department claimed at the same time that during 1947–8 productivity per head had attained (on an average) 86 per cent of the pre-war level. In the course of the second short Plan period productivity improved, as it seems, slowly, attaining in December 1948 about 96 per cent of the pre-war level.

The Report of the Planning Department on the first half of 1949 stated that during this period improvement was unsatisfactory, the level of productivity being in June 4 per cent below that of the last five months of 1948. (The productivity level during these months was at an average slightly over 90 per cent of pre-war).

[1] According to press reports hundreds of thousands of workers were involved in the labour contests in the autumn of 1949.

8: Schweng S-4,5 (no date) 1951 EC1 Hungary EC1

of the mark set. However, this had been set at only 87 percent of prewar. Thus crops could be 77 percent of prewar, apparently due largely to the poor yield of corn and potatoes. The per unit yield of wheat was exactly as high as planned, 1.3 tons per hectare (prewar average over 1936-40, 1.48 tons per hectare); rye was slightly better than expected, 1.15 tons per hectare, the same as prewar.[17]

Against the poor results in crop farming, the livestock figures as reported are surprisingly good, especially in view of the fact that the plan did not run the full three years but only 29 months. The cattle population is supposed to have reached 2.1 million head which is 26 percent higher than the figure planned for 1950 and 10 percent higher than the prewar figure. The pig population was claimed to have increased two and a half times in the plan period, but no dates were given. Without them the increase is meaningless and no estimate of the actual size is possible because of the large seasonal variation. It was stated that at the same time there had been a 78 percent increase in per capita meat consumption. The number of horses increased more slowly than expected and was 74 percent of prewar, against the expected 78 percent.

Investments in agriculture, both direct and indirect, were budgeted at 2.0 billion forints in three years, 0.58 billion in the first year. In the first year actual investments exceeded the budgeted sum by 18 percent, largely because of the substantial private investments of farmers. Total agricultural investments in 29 months amounted to slightly less than 3.0 billion forints, 50 percent more than budgeted and the volume of investments was claimed to have been 34 percent greater than planned.

The most important result of the investment program was the establishment of 221 tractor stations with 3,800 tractors and a large amount of other agricultural machinery. Altogether some 4,500 tractors were added to the stock of 12,500. Other investments include the increase of the irrigated acreage by 15,000 hectares to a total of 26,000 hectares,[18] the setting up of sixteen stations for plant breeding and seventy-three stations for artificial insemination,[19] the building of 40,000 cubic meters of silos, and the reforestation of 59,000 hectares. As to indirect

17. For changes in the volume of aggregate output, see Tables IV, Va, and Vb.

18. Mainly for the growing of rice. Rice is now grown on 14,000 hectares, against 5,000 hectares before the war.

19. Sixty-two for horses, ten for cattle, one for sheep.

percent. In the fifteen years of the interwar period (1924-25 to 1938-39) the gross value of agricultural production increased by 35 percent if valued at constant prices.[8]

The increases in average yields per unit of land necessary to achieve the contemplated rise in aggregate output are 13 percent for wheat, 27 percent for rye, 35 percent for corn, 30 percent for potatoes, 40 percent for sugar beets, 27 percent for sunflower seed, etc. As the expected, and even more, the actual yields of 1949 were all below prewar levels, the goals set are not excessive. In fact, with few exceptions, they correspond to, or are even below, the averages of 1936-40.

The yield of permanent pastures will be increased by 10 percent, that of orchards, vineyards and truck farms by 20 percent. The cattle population will be increased to 2.4 million head, the horse population to 750,000, the pig population to 5.6 million, and sheep to 1.6 million. This means reaching the 1942 level of cattle and sheep population. The number of horses and pigs would fall below the prewar level. In increasing livestock, priority will be given to state-owned and collective farms. Besides an increase in numbers, there will have to be an increase in yields. The average milk yield per cow is to be increased by 20 percent and the wool clip per sheep by 13 percent. Due attention is to be given to increasing the acreage under fodder crops to provide for the larger animal population.

The increase in field crops is to be attained by large-scale mechanization resulting in better tillage, and by improved and up-to-date techniques applied in large units. The number of tractors is to be increased from about 17,000 at the end of 1949 to 22,800 in 1954. Of these, 19,500 will be operated by tractor stations, the number of which will be increased to 500. (At the end of 1949, there were 221 stations operating 3,800 tractors.) There is also to be a corresponding increase in other machinery. The use of fertilizers will be increased to 4.5 times the 1949 level.[9]

Irrigated acreage (26,000 hectares in 1949) is to be increased by 68,000 hectares to 94,000 hectares. The irrigation project begun in 1937 will thus be about half completed. Serious effort is to be made to improve acid and alkaline soils, beginning with the improvement of 17,000 hectares of alkaline and 40,000

8. For volume of output see Tables III, IV, Va and Vb in the Appendix.

9. Production of superphosphate and nitrogenous fertilizers in 1949 was 157,000 tons against 80,000 tons in 1938. There may have been some exports, but most of the production was for home consumption.

RECENT DEVELOPMENTS

315 natural level of prices at the time."[1] Between June 1945 and July 1946, the artificially fixed prices ranged from eighty-one cents to less than one cent per barrel. It is significant to note that Article 28 of the contract provided for cancellation of the concession in the event of bankruptcy

This effort also failed, however, and with the signing of the peace treaty Russian military representatives disappeared from the oil fields and MAORT resumed near-normal operations.

315
661
471 In May 1947 the Communist Party, backed by the Red Army, ousted the non-communist government and took over the country. A three-year plan was announced for all branches of industry. The government purged most of the reliable MAORT employees early in 1948, on various pretexts, and in May it appointed a communist "controller" for the company. All Hungarian-owned industries had been nationalized without compensation in April. The following September two American directors of MAORT were imprisoned on charges of sabotaging the Three-Year Plan, along with the former Hungarian manager and key employees. The Americans were released after having been forced to sign confessions; the Hungarians were given long prison sentences. In September 1948, MAORT was confiscated.

•475
315
465 The government allowed some technical directors to retain their posts but appointed a number of new directors to manage what had been MAORT operations. One of this group's first moves was to put a battalion of Hungarian secret police on the company payroll, to guard the property and to watch the employees. In 1949 most company offices were moved from Budapest to Nagykanizsa, about 20 miles from the Zala fields. The new directors also fixed long hours at low wages for the employees. In 1950 monthly wages for common laborers were 300 forints; office employees, 400-800 forints; skilled laborers and drivers, 500-900 forints; section head and technicians 800-1600 forints; engineers, 1,200-3,200 forints. Even at the official exchange rate of 12 forints per dollar these were low wages, and the actual rate in 1950 was nearer 36 forints per dollar. Moreover, up to 30 percent

[1] [for footnote, cf cat. 116, p. 73 -- Analyst]

12: Free Europe Committee U-4 (no date) 1954 EC1 Hungary EC1

475 ●
315
[465]

is deducted from these earnings for such items as "voluntary" subscriptions to state loans, newspapers, cultural associations, union dues, and "Korea fighters."

315

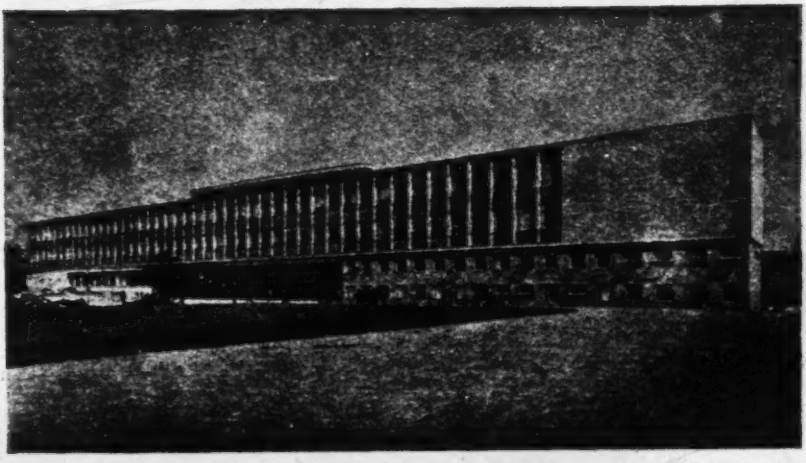
At the end of 1950 the communist authorities decided to reorganize MAORT after the Soviet pattern. The move, put into effect in June 1951, created the National Carbon Dioxide Producing Company at Mihályi; the National Pipeline Company, the National Mineral Oil Machine Repair Company and other, smaller groups, as well as the National Transdanubian Oil Company (Dunántuli Kőolajtermelő Vállalat), all with headquarters at Nagykanizsa.

The last-mentioned company included the Lovászi, Lispe, and Hahót-Ederics fields, as well as gasoline, propanebutane, natural gas, and carbon black plants. According to some sources it was later divided into two branches, one covering production and the other exploration. Soon after the reorganization, Hungary's economic czar Zoltan Vas, ordered all its administrative and technical offices moved from Nagykanizsa to the oil fields. It appears that the supervision of production and part of the exploratory activities are located at the fields themselves, while all the auxiliary branches, such as equipment repairing and pipeline construction, have their headquarters at the nearby town of Nagykanizsa, which is being developed as an oil center.

[816]

The geophysical division of MAORT was merged into the government's Geophysical Institute (Eötvös Loránt Geophizikai Intézet) which takes care of all the geophysical exploration in Hungary, including the Hungarian-Soviet Oil Company (Magyar-Soviet Olajipari R.T.), or Maszovol, concessions east of the Danube. According to a reliable report, the headquarters of the Geophysical Institute are located in Budapest at 14 Voroshilov Rd., and its activities in the spring of 1952 in western Hungary included exploratory drilling and geological surveying at Tatabánya, Keszthely, Zalaegerszeg, and Fertőszentmiklós using Hungarian and German equipment. Some Russian geologists joined the geological group at Nagykanizsa to help the Hungarians find new oil fields. There were also per-

000



The apprentice home at the Matyas Rakosi works in Csepel.

562 condition require it, to more. If she places her child in
745 the factory baby care center, the young mother has the right to go down there and nurse it. This time is included in her eight work hours. Pregnant women may ask to be transferred to lighter work without reduction in wages. Six months before and six months after her delivery a woman cannot be discharged from her work or job. Working women are protected by law from having to do night-work or exhausting overtime.

[466] Around four o'clock, when he has finished with the
• 475 apprentices, Ferenc Gergely leaves the workshop. He goes
217 to the locker room, takes a hot shower and changes into his street clothes. Then he goes to the factory library to return a book. He loves to read, but in the past he had little opportunity to indulge in this pastime. Either he had no time or he had no money. Now he has both although reading costs him nothing since the library provides him with books free of charge. He can read, study, educate himself at his pleasure without having to pay for it. There are approximately twenty-five hundred

factory libraries in the country; these contain more than one million volumes which teach and entertain the workers, acquaint them with the benefits of culture and raise their educational level.

The factory library is on the first floor of the cultural center of the works. On his way up Ferenc Gergely glances into the lecture hall. For a moment he watches the rehearsal of the cultural group of the factory which is competing, with a good chance of winning, in the national cultural competitions now under way. Approximately

Ferenc Gergely in the factory library.